The financial markets have had the concept of socially responsible investment (SRI) since the first half of the 20th century, but ESG investment focusing on the environment, society, and governance is a more recent concept that has spread worldwide since the Principles for Responsible Investment (PRI) were launched in 2006. The United Nations’ introduction of Sustainable Development Goals (SDGs) in September 2015 has contributed to more widespread awareness of the importance of sustainable finance. In the Asian region, including the Association of Southeast Asian Nations (ASEAN) member countries, the concepts of ESG investment and sustainable finance generally are still in their early stages of development, but we have already seen a number of important ESG-related initiatives mainly in the three areas outlined below.

First is the strengthening of corporate governance by listed companies. On a regional level, the ASEAN Capital Markets Forum (ACMF), with the support of the Asian Development Bank, introduced the ASEAN Corporate Governance Scorecard in 2011, based on the Organisation for Economic Co-operation and Development (OECD) Principles of Corporate Governance. At the individual country level, financial regulators have introduced corporate governance codes and corporate governance blueprints to promote greater awareness of the importance of corporate governance among listed companies.

Second is the issuance of green bonds to fund environment improvement projects. One impetus for green bond issuance in the ASEAN region in recent years has been the Paris Agreement, which was adopted at the 21st Conference of the Parties to the United Nations Framework Convention on Climate Change (COP 21) in December 2015 and establishes an international framework for dealing with global warming after 2020. The ASEAN countries are signatories of the Paris Agreement and are endeavoring to reduce greenhouse gas emissions. Green bond issuance has also been supported by the introduction of the ASEAN Green Bond Standards in 2017 by the ACMF based on the Green Bond Principles of the International Capital Market Association (ICMA).

Third is the publication of sustainability reports by listed companies. Sustainability reports disclose what companies are doing to help realize a sustainable society. By increasing the transparency of nonfinancial information and reporting their initiatives to improve the environment and contribute to society, companies can enhance their appeal to investors as well as improve their competitiveness. In the ASEAN region, the status of the introduction of regulations concerning sustainability reports varies from country to country, but in general countries have either adopted the “Comply or Explain” method or plan to do so.

ESG-related efforts in each country help attract a wider range of issuers and investors and are therefore extremely important for building sustainable capital markets, which in turn can be expected to lead to sustainable growth of national and regional economies. This issue of Nomura Journal of Asian Capital Markets features articles that present the current state of ESG-related efforts as well as the key issues and prospects for future development of ESG investment and sustainable finance in ASEAN countries’ capital markets.